

G, E-002/M-92-371 ORDER REQUIRING DEFERRED CREDIT ACCOUNTING
TREATMENT AND THREE-YEAR AMORTIZATION OF NSP'S UNBILLED REVENUES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of the Request for
an Order Granting Approval of
Accounting Procedures for
Recording and Amortizing
Northern States Power Company's
Unbilled Revenues in its
Financial Statements

ISSUE DATE: September 22, 1992

DOCKET NO. G, E-002/M-92-371

ORDER REQUIRING DEFERRED CREDIT
ACCOUNTING TREATMENT AND THREE-
YEAR AMORTIZATION OF NSP'S
UNBILLED REVENUES

PROCEDURAL HISTORY

On May 12, 1992, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed a petition requesting that the Commission require Northern States Power Company (NSP) to record its unbilled revenues balance as a deferred credit and amortize that balance over a three-year period beginning January 1, 1992.

On June 19, 1992, the Minnesota Department of Public Service (the Department) filed comments on the RUD-OAG proposal. On June 22, 1992, NSP filed its comments on the RUD-OAG proposal.

On July 6, 1992, the RUD-OAG filed its reply to the comments of NSP and the Department, and the Department and NSP filed replies to each other's comments.

On September 10, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Utility customers' meters must be read each month unless otherwise authorized by the Commission. Minn. Rules, part 7820.3300. Although the meter reading rule authorizes self-

reporting by the customer on a form supplied by the customer,¹ on-site meter reading by a company employee is the method generally utilized by most companies. Because on-site meter reading is employee-intensive, utilities distribute the meter-reading workload throughout the month by reading a portion of their customers' meters on each working day of the month.

At the end of each accounting year, accordingly, there is consumption recorded on every meter that has not been read that very day. The value of all the gas and electricity consumed between the year's last reading dates and the end of the year's accounting period is referred to in this Order as unbilled revenues.

Despite the preference for accrual accounting, it has been common practice in utility accounting to not book the sales of electricity recorded on these unread meters as income in the year the sale/consumption took place.

Following industry practice in this regard, NSP has experienced such unbilled revenues annually and recorded them when they were actually received, i.e. in the first month of the next accounting period.

The implications of this accounting practice for purposes of setting rates has been considered in NSP's recent rate cases.² In NSP's most recent rate case, the Commission noted that this treatment would result in an improper match of test year costs and revenues unless test year unbilled revenues are included in rate case revenues. Accordingly, the Commission included the unbilled revenues experienced by the Company during the test year as rate case revenues. This adjustment increased NSP's proposed

¹ The rule places some limitations on customer self-reporting option. On-site meter reading by a company employee is required at least once in a twelve month period, when there is a change in customers, and when requested by a customer. Minn. Rules, part 7820.3300.

² There were also tax implications of this practice. In 1986, Congress noticed that the utilities were deducting for tax purposes all the expenses that they incurred during the tax year (whether they actually paid for them in that year or not) but were not reporting as revenue the value of the electricity sold to and recorded on customers' year-end unread meters. In effect, approximately 15 days of pure revenue with no offsetting expenses, had not been taxed. The Tax Reform Act of 1986 required that the utilities estimate their unbilled revenues annually and enter them into the tax formula. The Act authorized a four-year amortization period for remittance.

net income of \$870,117. In the Matter of the Application of Northern States Power Company for Authority to Increase its Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-91-1, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (November 27, 1991) at page 47.

NSP has proposed to change its accounting procedures regarding this unbilled revenues by recording \$76.1 million as net income company-wide. The Minnesota jurisdictional amount at issue in this proceeding is somewhat less than that.

The RUD-OAG opposed this accounting change, stating that it would be more appropriate for NSP to give deferred credit accounting treatment to this income and amortize this amount over a three-year period commencing January 1, 1992. The RUD-OAG requested that the Commission direct NSP to change its accounting treatment of this amount accordingly.

The Commission recognizes that the issues surrounding NSP's unbilled revenues³ are complex and important. They deserve and will receive the Commission's thorough attention. However, at this point many basic issues are unclear. For example, NSP asserted that the amount in question is its estimate of the value of electric sales that will be meter-recorded but unread as of the end of this accounting year, December 31, 1992. Under this characterization, the amount is neither received, billed or earned at this point. The RUD-OAG, on the other hand, argued that NSP has already billed and received this amount from ratepayers over the years. According to the RUD-OAG, the amount in question is ratepayer supplied capital, an accrued amount that has never before appeared on NSP's books. Second, are there implications of the Company's proposed accounting change for ratemaking? According to the RUD-OAG, once this amount is recorded it would flow to retained earnings, increasing the equity ratio resulting in ratepayers having to pay a higher rate of return. The merits of such a view should be carefully examined. Third, it is unclear whether the Commission has previously addressed the specific issue raised here by the RUD-OAG. NSP argued that the Commission has decided this issue seven times while the RUD-OAG asserted that it has never been

³ The Commission understands that the accuracy of the term "unbilled revenue" as applied to the amount in question in this docket is challenged by the RUD-OAG who asserted that the amount in question has, in fact, been billed and received by the Company. Nevertheless, the term "unbilled revenue" is the term that has historically been used to refer to this phenomenon. Without prejudging the merits of the RUD-OAG's contention, the Commission will continue to use that term until it makes a finding that another is more appropriate.

able to raise this exact issue before the Commission because NSP has never before proposed any change in accounting treatment for its unbilled revenues.

The ultimate question regarding NSP's unbilled revenues is whether ratepayers should experience a benefit from this amount that they have not already experienced or whether the amount has already been properly factored into the rates.

The Commission is not prepared to decide this matter based on the record in this case and would prefer to have the record regarding these issues fully developed in the context of a rate case. The remaining question for this Order is whether it is necessary to adopt the RUD-OAG's proposal in order to achieve this result.

It has been suggested that the ultimate question regarding NSP's unbilled revenues will inevitably come before the Commission during NSP's next rate case even if the Commission declines to order the accounting treatment proposed by the RUD-OAG. Certainly accounting treatment adopted by a utility which would render income out of test year and hence not subject to examination in a rate case would not bar the Commission from examining the appropriateness of that treatment in a rate case and reversing that accounting treatment where the utility had not received Commission approval for such treatment. If, upon examination, the Commission found that the accounting treatment unilaterally adopted by the Company was inappropriate, it could direct other treatment, even if that other treatment would render some or all of the entire revenue item subject to inclusion in the test year. However, this case is slightly different. The accounting treatment in question (NSP's recording the unbilled revenues as 1992 income) has been brought to the Commission's attention by the RUD-OAG's petition.

To dispel any uncertainty on this point, the Commission finds it more prudent to simply assure consideration of the matter in NSP's next rate case by granting the RUD-OAG's petition. In requiring NSP to record the unbilled revenues in the deferred credit account and amortize one-third of that amount over three years starting in 1992, the Commission will preserve the issue for review in a rate case, assuming the Company files one within three years as has been its historical pattern.

ORDER

1. The petition filed by the Residential Utilities Division of the Attorney General's Office (RUD-OAG) on May 12, 1992 is granted.

2. Northern States Power Company (NSP) shall record the jurisdictional amount of its unbilled revenues as a deferred credit and amortize that amount over a three-year period commencing January 1, 1992.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)